LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7183
BILL NUMBER: HB 1968

DATE PREPARED: Jan 23, 1999
BILL AMENDED:

SUBJECT: Retiree Health Insurance under the Rule of 85.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that a public employee who is a member of the Public Employees' Retirement Fund, retires when the employee is at least 55 years old and whose age in years plus years of service is at least 85, and who is not eligible for Medicare may receive group health insurance benefits from a public employer if the employee meets any additional eligibility criteria and pays an amount equal to the amount paid by an active employee for the insurance.

Effective Date: July 1, 1999.

Explanation of State Expenditures: This bill provides that state employees and state legislators who retire early under the "Rule of 85" may purchase coverage under the state employee health plans by paying an amount equal to the amount paid by an active employee. The state is required by the bill to pay the employer share. (Current statute requires the early retiree to pay both the employee and the employer shares.) The cost of this provision is estimated to be at least $400,000, initially, and may eventually range up to $1.528 million, annually.

The estimated cost to the state for the early retirees currently on the state employee health plans is about $400,000. Currently, 353 early retirees continue to participate in the state employee health plans. Of these individuals, 40.5% or 143 are estimated to have retired under the "Rule of 85". The additional state cost per employee for health coverage is projected to be about $2,800 for FY2000.

The requirement that the state pay the employer share of health coverage (approximately 95% of the average premium) will provide a significant incentive for early retirees to continue on the state health plans until becoming eligible for Medicare. There are currently 546 state employees who retired under the "Rule of 85" and are still under the age of 65 (an estimated 143 of these 546 have chosen to continue on the state health plans and the balance have not). Although according to the bill, these specific individuals would not qualify under the bill's provisions, this provides an estimate of the number of individuals that could choose to opt into the program but have not chosen to do so under current statute. The total cost of the additional early retirees that could opt to remain on the state employee health plans is estimated to be $1.528 million annually. However, it may take several years to reach this level since only about 130 individuals retire under the “Rule of 85" in a particular year.

The actual annual cost of this provision to the state should fall somewhere between $400,000 and $1.528 million. Currently, personnel costs are paid from the state General Fund (about 55%) and from dedicated funds (about 45%).

Explanation of State Revenues:

Explanation of Local Expenditures: This provision also affects local governments. The impact on any particular local government entity will depend upon the amount of the “employer share” of health premiums for that particular government entity and the number of early retirees involved.

In FY98, 459 local public employees statewide retired under the “Rule of 85". In addition, there are currently a total of 1,598 former local public employees who retired under the “Rule of 85" and are still under the age of 65.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: Local Governments

Information Sources: Keith Beesley, Department of Personnel, 232-3062.
Public Employee Retirement Fund data.